

STRATEGIC HUMAN RESOURCE MANAGEMENT AND FIRM
PERFORMANCE: THE MODERATING ROLE OF HR LEGITIMACY

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This thesis proposes that a new construct labeled HRM legitimacy, shared organizational climate, and employee discretionary behaviors are important intermediate variables in the relationship between high-performance work practices and firm performance. Using theory from strategic human resource management, psychology, and communications, human resource management systems are re-conceptualized as signals from management to employees. It is then argued that shared organizational climate and employee discretionary behavior mediate the HR practices–firm performance relationship, and that HR legitimacy moderates the relationship between HR practices and organization climate, which affects performance through employee discretionary behavior. Results largely support the mediating roles of climate and discretionary behavior, but show no support for the proposed moderators.

BIOGRAPHICAL SKETCH

John James Haggerty was born in Brooklyn, raised on Staten Island, and graduated from Monsignor Farrell High School. He received his Bachelor of Science in Industrial and Labor Relations from Cornell University, and his M.B.A. from Case Western Reserve University. He enjoyed a twenty-seven-year career in human resources including four years at Eaton Corporation, two years at Picker International, and twenty-one years at General Electric, before returning to Cornell in 2003 to pursue his Ph.D. John is married to Robin Driskel, and they have two children, Aislinn and Dylan. They reside in Aurora, New York.

To my sister Marilyn, the only one of the ten not here to see this day, I miss you.

I'll have your copy with me, when we meet again.

ACKNOWLEDGMENTS

In 2003, at the age of 46, I “dropped out” of my executive career to pursue a lifelong dream, the completion of a Ph.D. at the Cornell University School of Industrial and Labor Relations. While for me the decision was an easy one, it had major repercussions for the lifestyle enjoyed by my wife, Robin, and my two children, Aislinn and Dylan. Without their support and encouragement this dream would never have been realized. I owe them more than these few words can convey.

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CHAPTER I: STATEMENT OF THE PROBLEM

Introduction

Strategic human resource management has been studied by hundreds of researchers over the last thirty years (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Pioneering work by a small group of scholars in the early 1980s explored the relationships between how people are managed (human resources management [HRM]) and firm-level outcomes (performance) (Dyer, 1984; Fombrun, Tichy, & Devanna, 1984). In a recent comprehensive review of the field, Lengnick-Hall et al. (2009) identified seven themes that reflect the directions and trends within this vast body of literature. In some respects the study of strategic HRM (SHRM) is quite mature; yet in other respects, there is still considerable work to be done.

Perhaps the most accepted definition of strategic human resource management is that offered by Wright and McMahan (1992): “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals” (p. 296). In contrast with earlier work in the field of human resource management which had been primarily micro in focus, and informed by the industrial/organizational psychology framework (Wright & Boswell, 2002), strategic HRM sought to link HR activity at a variety of levels with organizationally important outcomes. A recent review of the literature found 68 empirical studies on this topic (Wright, Gardner, Moynihan, & Allen, 2005), each of which found at least one significant relationship between an HRM practice or system and a firm-performance measure. Meta-analysis of 92 individual studies (Combs, Liu, Hall, & Ketchen, 2006) confirmed an overall correlation of .20, with stronger effects for high performance work system bundles than for individual HR practices. While methodological challenges remain (Wright et.

al., 2005), it is now widely accepted that human resources practices and systems are positively correlated with a variety of measures of firm performance.

While our understanding of the correlation of HR practices to firm performance has grown, there remains much work to be done to understand how practices affect performance (i.e., through what specific mechanisms). And there is still controversy regarding inferences of causality (do high-performing companies implement more/better HRM?). The nature of the studies done to date makes it difficult to answer these questions. Part of the challenge we face in studying this field is the pervasive and dominant conceptualization of HRM as practices or bundles of practices, in some cases independent of the context in which they appear, and also of the process through which they are created, implemented, and evaluated.

The remainder of this chapter analyzes where and how the literature has included analysis of the roles played by practitioners in human resources systems, drawing primarily on a recent literature summary by Lengnick-Hall et al. (2009). It concludes with a brief description of some of the criticism directed at HR practitioners in the popular press. This thesis then proposes and tests the argument that when human resources practitioners are functionally competent, knowledgeable of the business in which they operate, and working with a line management that understands the potential contribution of strategic HRM, those organizations will outperform organizations where this is not the case, all else being equal.

Literature Review: Human Resources Practitioners and their Role in Human Resources Management

With very few notable exceptions, the people most directly responsible for HRM within most organizations (certainly within large organizations), the people of the human resources function, are completely excluded from research studies, other than as the (often) sole source of data. That is, very few studies have tried to determine the role and value of human resource practitioners as part of an overall human resources system. Rather, human resources practitioners have been asked primarily to rate and evaluate the HR practices they see and use in their workplaces.

In support of this assertion, across the seven themes identified by Lengnick-Hall et al. (2009) in their comprehensive review, the HR function and its role are mentioned and explored in a very limited way under only two themes:

1. Explaining contingency perspectives and fit.
2. **Shifting from a focus on managing people to creating strategic contributions.**
 - Tichy, Fombrun, and DeVanna (1982)
 - Barney and Wright (1998)
 - Huselid, Jackson, and Schuler (1997)
 - Green, Wu, Whitten, and Medlin (2006)
3. Elaborating HR system components and structure.
4. Expanding the scope of HRM.
5. **Achieving HR implementation and execution.**
 - Sheehan, Cooper, Holland, and De Cieri (2007)
 - Bartram, Stanton, Leggat, Casimir, and Fraser (2007)

6. Measuring outcomes of HRM.
7. Evaluating methodological issues.

There are four articles under the banner of shifting the focus of HR to creating strategic contributions that directly or indirectly include an analysis of or recommendation for the human resources function. Writing about the dire state of the US economy in 1981, Tichy et al. (1982) identify a myriad of factors that they believe contribute to the problem, many of which are rooted in human resource management. They conclude, “corporations are increasingly struggling with human resource problems but few if any have created the strong proactive human resource function needed to respond to the demands” (p. 2). Their article is prescriptive, laying out the agenda for creating a more strategic role for the HR function through a series of case studies, but not empirical.

Interestingly, while the field has largely accepted the resource-based view (RBV) of the firm (Barney, 1991) as its theoretical foundation, no empirical study has yet examined the RBV as it applies to the human resources function. Writing in 1998, Barney and Wright suggested that the VRIO (value, rareness, imitability, and organization) framework could be applied to the human resources system and that HR can and should play a valuable role in the development of sustained competitive advantage. Specifically, they say, “clearly the HR function through either directly controlling or strongly influencing the characteristics of human resources in organizations, plays an important role in developing and maintaining a firm’s competitive advantage” (p. 36). This suggests a different “mindset” among HR practitioners and their role within the organization they support. But, similar to Tichy et al. (1982) eleven years earlier, Barney and Wright conclude, “It appears that there are far too many HR executives who view themselves as human resources people who

happen to work in a business, rather than business people who happen to work in HR” (p. 44).

In one of the few empirical studies to directly examine the human resources function, Huselid et al. (1997) first parsed the function along two dimensions: technical HR (recruiting, selection, performance measurement, training, and the administration of compensation and benefits), and strategic HR (compensation design, team-based job design, flexible workforces, quality improvement practices, employee empowerment, studies designed to diagnose a firm’s strategic needs, and the planned development of talent to implement competitive strategy and achieve operational goals). They hypothesized that both dimensions of HR (technical and strategic) would be positively associated with firm performance. They further hypothesized that within the HR function there would be greater development of professional capabilities (traditional HR activities) than of business-related capabilities (those capabilities that enable members of the human resources staff to understand how business considerations unique to a firm can create firm-specific HRM needs). In a sample of large US firms, they found support for the greater development of technical HR over strategic HR, but only strategic HR was associated with firm performance. That is, they found no significant relationship between the “traditional” activities of an HR department and firm performance, but did find a positive relationship between the less developed area of strategic HR and firm performance.

While generally considered important to the field, this 1997 article did not prompt many additional studies aimed at replicating the findings across different industries or organizational settings. Nor did anyone in the field take up the challenge to better define these (empirically important) “business-related capabilities” in human resource

functions. In fact, perhaps because the study explored the HR function, and not the more popular realm of HR practices, it stands somewhat on the periphery of the field. While the notion of a new skill set (or mind-set) for HR professionals has lived on in practitioner-focused journals (Becker, Huselid, Pickus, & Spratt, 1997), there has been no serious empirical attention paid to the suggestion that the skills of the HR function can affect firm performance. While Green et al. (2006) examine the relationship between SHRM (operationalized as the degree of HRM vertical alignment with firm goals and the horizontal alignment or agreement across multiple HR practices) and firm performance (and find a positive relationship), they include additional dependent variables (DVs) regarding the job satisfaction, organizational commitment, and performance of HR professionals, but do not suggest and do not report that these affect performance.

An individual HR practice is the equivalent of a violin, and bundles or systems are the equivalent of quartet instruments or an entire orchestra of instruments. Stacked on the stage they are pretty to look at, but make no sound. It is only when coupled with a person that an instrument does its work. But in the hands of an amateur a well-made violin will only occasionally produce good sound. In the hands of a master that same instrument will truly sing. When an entire orchestra is made up of masters, it takes a skilled conductor to bring out the best possible blend of beautiful sounds, adjusting constantly for changes in individual performance and environmental factors. So it is with HR practices. They come alive in their implementation and they are enacted through people, people who may or may not be masters. This recognition of the role of actors (both HR and line management) in the successful implementation of HR systems has been remarkably absent from thirty years of academic research.

Interestingly, when scholars write for the trade or popular press, there seems to be a consistent emphasis on the need for the HR function to be more business-focused and to aspire to the role of business partner (Lawler & Mohrman, 2003; Schuler & Jackson, 2007; Ulrich, 1997), but beyond common sense and anecdote there is little support for the notion that higher skills among HR professionals enhance the effectiveness of an HR system. And very little effort has been invested in this line of research in over a decade.

“I’m absolutely convinced that doing a better job managing the workforce would create considerable wealth in our business. I’m just not convinced that anyone in the HR department can help us get there.” This quote highlights an important distinction between managing the workforce and managing the HR function. The notion of workforce strategy is understood by managers in much the same way as academics speak of the HR architecture, with one important difference. It highlights a shared responsibility for strategic workforce performance between line managers and HR professionals that is not as central in the HR architecture construct. (Becker & Huselid, 2006, p. 919)

In the next “theme” area as summarized by Lengnick-Hall et al. (2009), achieving HR implementation and execution, two articles focus on the role of the HR function in driving business outcomes. The first, an interesting study of 441 Australian senior HRMs (Sheehan et al., 2007), found evidence that “CEO support and organizational support for HRM predicted perceived organizational performance” (p. 611). While CEO support has long been considered critical to the effective implementation of key organizational systems (including HRM), this is the first study to look at CEO support for functional HR and to find that such support correlates with perceptions of firm performance, while HRM representation on the Board has only a “symbolic” impact.

The second study (Bartram et al., 2007), also in Australia, found “significant differences . . . in perceptions of strategic HRM and HR priorities between chief

executive officers, HR directors and other senior managers” (p. 21). The article, appropriately titled “Lost in Translation,” suggests that even within organizations there may not be full agreement on what constitutes strategic HRM across arguably involved populations. The authors suggest that this lack of agreement may hinder progress on reaching a better understanding of which people-management practices link with improved organizational outcomes (Bartram et al., 2007).

These two recent studies tangentially extend the earlier work done by Huselid et al. (1997) by turning the focus back to the role of the HR function, and to the relationship of the HR function with itself (across organizational levels) and more broadly with general management. Both suggest that functional HR plays some role in the effective development and implementation of HR practices and systems, but neither looks directly at the ability of those in HR to deliver strategic value, and while CEO support is found to be important, the level of CEO expectation as a customer of strategic HR products is not tested.

Contemporary Popular Criticism of Human Resources Management: Focus on the Function

Criticism of the HR function reached a crescendo with the 2005 publication of Keith Hammond’s article “Why We Hate HR” in *Fast Company*. In that brief but highly critical piece, Hammond disparages the people of HR as financially weak, focused on programs that have little or no connection to real business issues, and essentially marginalized in the C-suite. Fully five years later, the current editor of *Fast Company* felt compelled to revisit Hammond’s critique and offered the following:

The real problem, I’d submit, isn’t that HR executives aren’t financially savvy enough, or too focused on delivering programs rather than enhancing value, or unable to conduct themselves as the equals of the traditional power players in

the organization--all points the original essay makes. The real problem is that too many organizations aren't as demanding, as rigorous, as creative about the human element in business as they are about finance, marketing, and R&D. If companies and their CEOs aren't serious about the people side of their organizations, how can we expect HR people in those organizations to play as a serious a role as we (and they) want them to play? (Taylor, 2010)

Who is right? Are HR people incapable (on the main) of performing up to the strategic expectations? Or are CEOs and other members of senior line management "not serious" about strategic HR and its potential contributions? More importantly, do either of these two conditions (HR capability or management expectations) matter at all when it comes to firm performance? This is an empirical question that has yet to be explored in the SHRM literature, and is the subject of this thesis.

There is a relatively sparse empirical focus on the role of functional HR in the delivery of strategic HRM products, and even less understanding of what capabilities are needed in the functional population in order to deliver to the "new" strategic expectations. To quote Becker and Huselid (2006):

Although the literature on general management competencies has a long history, the literature of the specific competencies needed for HR managers is much more limited. We believe that a useful line of research would blend the literatures on general management and HR managers' competencies, with a specific focus on the competencies and behaviors directly related to strategy execution. (p. 921)

Study Outline

The challenge of this dissertation is multidimensional. First, in recognition of one of the criticisms of strategic HR research (Gerhart, Wright, McMahan, & Snell, 2000), I utilize a data set that includes archival measures of performance deemed to be important outcomes by the host organization. Second, I closely examine two

mediating mechanisms (organizational social climate and employee discretionary behavior) shown in previous research (Collins & Smith, 2006) to be important in the practices–performance relationship. Third, I attempt to describe and measure two new aspects of functional human resources skills (technical HR competency and business acumen) and one measure of line-management philosophy (expectations of HR), that I propose will interact with HR practices to drive higher unit-level performance. And finally, in addition to using archival measures for performance, I use two additional data sources (an employee survey and a survey of unit presidents) to avoid the single-source-bias criticism of much of the previous strategic HR literature (Gerhart et al., 2000).

CHAPTER 2: THEORY DEVELOPMENT

Introduction

According to Colbert (2004), the study of strategic human resources management is predicated on two fundamental assertions: that an organization's human resources are of critical strategic importance, and that a firm's HRM practices are instrumental in developing the strategic capability of its pool of human resources. Much earlier, Wright and McMahan (1992) defined strategic human resource management as "the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals" (p. 296). Both definitions suggest an interest not in individual-level outcomes but in organizational-level outcomes. The fundamental focus of SHRM is then to answer the question "Do human resource management practices, processes, and systems have an impact on firm-level outcomes?"

This focus on firm-level outcomes differentiated SHRM from earlier streams of human resources literature that focused on individual elements of the HR function, largely from the perspective of the industrial and organizational psychology paradigm (Boxall & Purcell, 2003). Propelled by the strategy literature and the growth of strategic management as a business function (Miles & Snow, 1984a; Porter, 1985) and by the increasing recognition of the role of people in the formulation and implementation of strategy, scholars in SHRM began to hypothesize and test relationships between specific individual HR activities and firm performance (Schuler & Jackson, 1987). Reflecting on this evolution, Wright and McMahan (1992) highlighted the variety of theories used to explain the relationships found between HRM and firm performance.

The Evolution of Strategic Human Resources Management

Before centering largely on the resource-based view as the foundation for strategic human resources, the field moved along in four distinct perspectives. They are the universalistic perspective, the contingency perspective, the configurational perspective, and the contextual perspective. Scholars moved independently and simultaneously within each perspective, and only recently have efforts been made to integrate or rationalize the contributions made by each unique research stream.

The Universalistic Perspective

This perspective, sometimes also called “best practices,” represents that there is a linear relationship between HRM variables and performance that can be extended to any situation (Delery & Doty, 1996). According to Becker and Gerhart (1996) one can identify best human resources practices that have the capacity to improve organizational performance and are generalizable. This analysis implies an additive relationship between the practices and firm performance. The argument is that certain HRM practices will have a positive impact on the performance of any organization. While definitions and descriptions of those best practices have varied in the literature, there is general consensus regarding the universal effects of variable compensation (Gerhart & Milkovich, 1990), high standards of recruitment and selection (Terpstra & Rozell, 1993), training and development (Russell, Terborg, & Powers, 1985), and performance management (Borman, 1991). To some extent, the early work on high-commitment work practices (Youndt, Snell, Dean, & Lepak, 1996) has its origins in the universalistic perspective.

The Contingency Perspective

As its name suggests, the contingency perspective introduces moderators to the linear model described above (Delery & Doty, 1996). Under this series of models a broad range of additional external factors are considered. The “fit” of HR practices to business strategy (Lengnick-Hall & Lengnick-Hall, 1988), organizational factors such as size, technology, or structure (Jackson & Schuler, 1995), and environmental variables such as technological, labor, or economic conditions (Becker & Gerhart, 1996) are all studied as critical variables which can affect the outcome of the practices–performance link. Thus the relationship between HRM practices and firm performance is seen as more interactive, not simply additive as in the universalistic model.

The Configurational Model

This model considers the interaction not only of HRM practices externally with the situation or environment, but internally with each other. Here we begin to see the notion of a coherent set of practices that fortify and reinforce each other (Doty et al., 1996). This is a more complex and interactive view of the role of practices in performance, and it is suggested that there may in fact be multiple configurations that achieve the same outcome (Delery & Doty, 1996). Such an approach essentially denies the existence of a single set of best practices that is universally applicable as suggested above.

While each of these perspectives has played a valuable role in the progression of our understanding of the field of strategic human resources, a different perspective has helped to move our study of the HRM practice–firm performance link forward.

Resource-Based View of the Firm

Throughout the 1990s, SHRM scholars increasingly used the resource-based view of the firm as the unifying theory of strategic HRM (Wright, Dunford, & Snell, 2001). The RBV suggests that competitive advantage originated not from a firm's position in the market relative to its competitors (Porter, 1985), but from its internal resource base (Barney, 1991). This provided two rich theoretical frameworks anchored on the one side by the outside-in market forces (Porter, 1985) and on the other by the inside-out capabilities arguments (Barney, 1991). Paauwe (2004) constructs a multiple-stakeholder model of strategic HRM that integrates both perspectives, but little empirical work has been done to test this more complicated model.

The RBV asserts that resources that are valuable, rare, inimitable, and non-substitutable will provide the firm that possesses them with a sustainable competitive advantage. The definition of competitive advantage in this context is critical; Barney (1991) defined it as implementing a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. According to the RBV, competitive advantage is present only when resources vary across organizations (heterogeneity) and are immobile (not generally available on labor markets).

Human resources can reflect each of those characteristics, and thus can be a foundation for competitive advantage (Wright, McMahan, & McWilliams, 1994). Others have argued that the HR system, with its inherent social complexity, can provide a firm with a valuable, rare, inimitable, and non-substitutable asset (Lado & Wilson, 1994; Boxall, 1996). Embedded in this dichotomy is the assumption that no single HR practice can meet the requirements of the resource-based view. It is the collection of HRM practices that contributes to sustained competitive advantage

through the discretionary effort of employees (Becker & Gerhart, 1996; Lado & Wilson, 1994; Wright et al., 1994).

In more precise terms, “The HR architecture is composed of the systems, practices, competencies, and employee performance behaviors that reflect the development and management of the firm’s strategic human capital. Above average firm performance associated with the HR architecture reflects the quasi rents associated with that strategic resource” (Becker & Huselid, 2006, p. 899). While the literature has consistently acknowledged the distinction between content and process, little empirical work has been done to operationalize and measure the process dimensions of HRM. I argue that it is HRM process, reflected partially in the relationship between the HR function and line management, more than content that provides the idiosyncrasy, ambiguity, and inimitability required for the creation of sustained competitive advantage.

Resource heterogeneity has not been extensively studied in the SHRM literature, and (with the exception of Schuler & Jackson, 1997) not at all with respect to the variance of ability across HR practitioners. This despite the repeated suggestion in the popular press that overall the people of HR may not be very good. This thesis will measure that heterogeneity across two dimensions: first, the technical competence of HR practitioners within the HR knowledge domain, and second, the tacit (firm-specific) strategic business skills of those HR practitioners.

Following the logic of the RBV, if highly skilled HR practitioners are rare and immobile, they can contribute to the sustained competitive advantage of the organization (Barney, 1991). If line leaders who fully comprehend the contribution

that strategic HRM can make are also rare, the combination of the two (competent HR and demanding line management) should interact to create the “social complexity” that Barney (1991) suggested can lead to a sustained competitive advantage.

The “Black Box” and the Role of the Human Resources Function

As researchers moved from the individual HR practice level to the systems level, new theories began to emerge. In the strategic perspective (Ferris, Hochwarter, Buckley, Harrell-Cook, & Frink, 1999), the “fit” between various HRM practices and the organization’s espoused strategy is the primary focus (Miles & Snow, 1984b; Wright & Snell, 1991). This stream of research established that the horizontal alignment of HR practices (with each other as part of the whole system) was an important determinant of strategic advantage (Schuler & Jackson, 1987; Wright & Snell, 1991; Wright et al., 1994). Closely related to the fit perspective is the contingency perspective, which suggests that the effectiveness of the HR system in producing competitive advantage depends on a limited set of contextual features such as firm size, industry characteristics, and other variables often associated with Porter’s (1985) competitive-positioning arguments (MacDuffie, 1995; Youndt et al., 1996).

In contrast to the fit and contingency arguments in SHRM, which have an external environmental focus, research has shown that a combination of HR practices aimed at building commitment in the employer–employee relationship can motivate employees to perform (Rousseau, 1995; Tsui, Pearce, Porter, & Tripoli, 1997). High performance work practice bundles motivate employees to contribute their discretionary behavior in support of organizational goals and objectives (Arthur, 1992; Tsui et al., 1997). Common features of HPWS’s include careful recruitment and selection to maximize fit with the organization (Delery & Doty, 1996), training and development that foster

the acquisition of firm-specific or tacit knowledge (Arthur, 1992), and organization- or team-based compensation that promotes cooperation across employee groups (Delaney & Huselid, 1996).

As mentioned at the outset, various approaches to strategic human resources research have resulted in the establishment of a broad consensus that how people are managed in a firm has an impact on that firm's ultimate financial performance (Combs et al., 2006). Underlying these various approaches is another broad consensus, that the appropriate way to study HRM is as a collection of practices that aggregate to form a system, and that the system conspires to provide employees with information that helps them to apply their discretionary behavior in the pursuit of objectives that support the strategic goals of their employer (Ferris, Arthur, Berkson, Kaplan, Harrell-Cook, & Frink, 1998).

There is, however, a significant inferential leap in this relationship, sometimes referred to as the "black box" of strategic HRM. While the effects seem consistent and replicable, the exact mechanisms through which these effects manifest are less clear, and those mechanisms have received considerably less empirical attention (Becker & Huselid, 1998; Wright, Dunford, & Snell, 2001). Missing from many of the foundational studies in this literature are time (data collection is nearly always cross-sectional), cause (the direction of the arrow is assumed or implied by the nature of the study, but not proved), and individuals (the people associated with the actual decisions or the management of the processes that seek to influence their decisions) (Wright & Haggerty, 2005).

The (Missing) Role of People in Strategic Human Resources Management

Also missing from much of the prior literature on strategic HRM is any recognition of the role played by the professionals that make up the HR function in most large organizations (for exceptions see Huselid et al., 1997; Lado & Wilson, 1994; Ulrich, 1997). Becker and Huselid (2006) identify the need for greater attention to strategy implementation (as opposed to assuming effective implementation) as identified in the strategy literature (Barney, 2001). In most cases the implementation of HRM practices and systems is carried out directly or managed by the HR function. Even when the “touch point” of HRM involves line management, it is the HR function that generally must prepare managers to perform well. Insufficient academic attention has been paid to the impact of the HRM function on the range of potential outcomes possible from any HR practice or system, regardless of its fit or the nature of the context. Only Lado and Wilson (1994) specifically suggest that HRM might in fact destroy value, perhaps just as easily as it might create value.

The functional side of HRM involves the understanding and interpretation of the organization’s strategic objectives, the evaluation of its current ability to achieve its strategic objectives, and the development and implementation of specific programs to deliver those competencies in a timely, efficient, and effective manner. While research has tended to concentrate its efforts on HRM content, Bowen and Ostroff (2004) argue that the combination of both content and process leads to HRM system strength, which they suggest directly affects employee perceptions of what behaviors are expected and rewarded.

While research continues on practices and bundles as the essence of HRM systems, some researchers have adopted or called for a more micro organizational approach to

identify intermediate links in the causal HRM–performance chain (Bowen & Ostroff, 2004; Collins & Clark, 2003; Ostroff & Bowen, 2000). There is growing acknowledgment that more qualitative and contextual methodology, rooted in institutional theory, might be needed during this transition to better identify the constructs and variables that should ultimately be tested quantitatively (for a review see Paauwe, 2004). Still others suggest that the inherent complexity of the HRM–performance relationship should be acknowledged, and that efforts to better understand them should not be reductionist, but should look instead to biological systems and complexity theory as analogs and move deliberately to a higher systems level of analysis (Colbert, 2004). This challenge has not yet been taken up. The contribution of this paper is to move away from practices as stand-alone entities (or even as intact systems) and to examine the role of the HR function as the implementation vehicle of HRM systems. That is, as suggested by the recent theorization of Bowen and Ostroff (2004), HRM must be reintegrated as the sum of its content (practices) and its process (the functional and structural dimensions of implementation).

Re-conceptualization of Human Resources Management

Signals from Management to Employees

Rather than study HRM as individual practices or a collection of practices (as in a high-performance work system), Bowen and Ostroff (2004) propose that scholars change their orientation and think of HRM (in the collective, not at the individual practice level) as signals sent to employees from leaders or management, “that allow them to understand the desired and appropriate responses and form a collective sense of what is expected” (p. 204). In this construct, the content of HRM (the specific practice or set of practices) is argued to be less important than the “process” of HRM

(the features of an HRM system). By altering the terminology from practices to signals we can begin to see the importance of implementation in producing a result. This also allows for the deliberate inclusion of considerably more organizational context (Chadwick & Capelli, 1998).

Climate as a Mediating Variable

Fundamental to the argument advanced by Bowen and Ostroff (2004) is the notion that climate mediates the relationship between HRM practices and firm performance (p. 204), and that a strong climate is one in which “employees share a common interpretation of what is important and what behaviors are expected and rewarded” (p. 203). They suggest that the strength of the HRM system is an important determinant of climate strength. Thus, HRM is important not solely for its content (specific practices or bundles), but for the overall strength of the system which is a combination of content and process, as received and acted on by various employee populations.

It is important, however, to recognize that climate has multiple dimensions. In this construct, literature suggests that commitment-based HR practices lead to an organizational social climate that motivates employees to subordinate their self-interest in favor of organizational goals (Rousseau, 1995; Tsui et al., 1997). At the base of the construct is the individual psychological climate, a perception of what individuals see and report as they make sense of their environment (Schneider, 1990, 2000, as cited in Bowen & Ostroff, 2004). The next level, group or organizational climate, is a “shared perception of what the organization is like in terms of practices, policies routines and rewards” (Bowen & Ostroff, 2004, p. 205).

Research on shared climate has moved toward attempts at linking climate with specific strategy objectives (Delbecq & Mills, 1985; Klein & Sorra, 1996). A number of studies have explored organization climates that are expected to promote innovation. Empirical tests have linked organizational climate to firm performance (Borucki & Burke, 1999; Johnson, 1996; Ostroff & Schmitt, 1993; Schneider & Bowen, 1985).

Collins and Smith (2006) tested and found considerable support for organization social climate as a mediator between commitment-based HR practices, knowledge exchange and combination, and two important measures of technology firm performance (sales growth and revenue from new products). In their study, organizational social climate was measured as trust, cooperation, and shared codes and language, features theoretically linked to a specific form of discretionary behavior, knowledge exchange and combination. While the authors hypothesized a positive relationship among commitment-based HR practices and social climate, and partial mediation by knowledge exchange and firm performance, they were surprised by the strength of the findings:

We were surprised that our mediators explained such a large proportion of the effects of commitment-based HR practices and firm performance. As noted above, the addition of social climate variables and the knowledge exchange/combination explained approximately 76 percent of the relationship between commitment-based HR and revenue from new products and services and 84 percent of the relationship between commitment-based HR practices and sales growth, leaving few remaining effects of commitment-based HR to be explained by the other potential mediators suggested in the literature. (p. 551)

In this thesis I attempt to replicate the Collins and Smith (2006) finding, while also extending it to another (less knowledge-intensive) forum.

Climate as the Situation and Situation Strength

What individual employees see and experience, and how they make sense of their work environment, forms their individual psychological climate (Schneider, 1990, 2000). If there is wide variation in the individual-level psychological climate, it is unlikely that a coherent organizational-level climate will emerge. That is, employees feel and experience the organization differently (Drazin, Glynn, & Kazanjian, 1999). Without a shared understanding of the climate (practices, policies, procedures, routines, and rewards), it is also likely that individual interpretations (sense-making) will vary, leading to variation in behavior. In this environment signals from management will be interpreted quite differently and it is not likely that behaviors will favor specific strategic objectives.

The creation of a shared organizational climate would then appear to be in the interest of any organization that desired to achieve specific strategic objectives. Early work by Lewin (Lewin, Lippit, & White, 1939) in social psychology established that different leadership styles created different climates, which in turn led to different behavioral reactions and attitudes (Ross & Nisbett, 1991). Labeled “situationalism,” this construct deals not with the physical or actual situation, but with what individuals see based on their perceptions (Drazin et al., 1999). Mischel (1973) introduced the concept of the strength of a situation to control individual behavior:

Psychological “situations” and “treatments” are powerful to the degree that they lead all persons to construe the particular events the same way, induce uniform expectancies regarding the most appropriate response pattern, provide adequate incentives for the performance of that response pattern, and instill the skills necessary for its satisfactory construction and execution. Conversely, situations and treatments are weak to the degree that they are not uniformly encoded, do not generate uniform expectancies concerning the desired behavior, do not offer sufficient incentives for its performance, or fail to

provide the learning conditions for successful construction of the behavior (p. 276).

Strong situations, then, induce conformity among individuals who experience them, while weak situations lead to ambiguity of response. Michel's work (Michel & Hambrick, 1992) suggested that situational criteria can be used to influence or control individual behavior. Bowen and Ostroff (2004) substitute organizational climate for the situation, and suggest that a strong organizational climate can work to create a consistent interpretation of signals from management (HRM) and induce consistent behaviors across groups of employees.

While I predict that organizational social climate will mediate the practices–performance link through discretionary behaviors, it is likely that high-commitment work practices also affect firm performance in other ways (Delery & Doty, 1996), such as attracting higher levels of human capital to the work environment (Huselid, 1995).

Having argued that climate partially mediates the HRM–performance relationship, and that a strong situation can help to create a shared organizational climate, Bowen and Ostroff (2004) turned their attention to establishing those aspects of an HRM system that would create the desired strong situation. The key here is to identify the characteristics of an HRM system that allow it to communicate “unambiguous messages” to employees about what behaviors are expected. In this context, HRM is conceived of again at the process, not content (specific practice) level.

If HRM is a message from managers to employees, then the message must be received accurately and accepted if it is to have the desired impact (Chaiken, Wood, & Eagley,

1996). In a strong situation, other variables that might affect how a message is heard and whether it is accepted or not are minimized. This event-effect relationship is reinforced by distinctiveness (the event effect is highly observable), consistency (the event-effect relationship presents itself the same across modalities and time), and consensus (there is agreement among individuals' views of the event-effect relationship) (Kelley, 1967). When all three, distinctiveness, consistency, and consensus, are present together, the situation is said to be strong and employees are likely to interpret messages in a similar fashion and behave in ways that support organization objectives (strategy) (Bowen & Ostroff, 2004).

Human Resources Management System Strength and Strong Situations

Despite having established the difference between HRM as practices and HRM as process, Bowen and Ostroff (2004) are inconsistent in their use of the terms. When establishing the basis on which HRM can be seen as distinctive, they include visibility, understandability, legitimacy of authority, and relevance. As an example of visibility they talk about the need for HRM *practices* to be salient and readily observable. They conclude:

The creation of a strong organizational situation requires that situational characteristics be salient and visible throughout much of the employees' daily work routines and activities. When HRM systems include a wide spectrum of HRM *practices*—for example, selection, training, diversity programs, employee assistance programs, and so forth—that affect a large number of employees, visibility is likely to be higher. Expanding the number and range of *practices* should enhance salience and visibility, because it increases complexity and allows for the set of practices to be more figural relative to other stimuli—both of which are principle of salience (Fisk and Taylor, 1991). Additionally, shared meaning cannot be developed unless most or all employees are subjected to and can perceive the same *practices*. (Bowen & Ostroff, 2004; emphasis added)

It is here that I reach to Colbert (2004) and suggest that levels of abstraction are important when differentiating between HRM as an additive collection of practices and HRM as a true system. At the lowest level, practices, one would expect (and in fact design) tremendous variability to reflect the complex architecture (Lepak & Snell, 1999, 2002) of the modern workplace. Practices must and do vary widely across employee segments (production, administrative, supervisory, executive, full-time, part-time, contractor, partner, consultant, tenure-track faculty, adjunct faculty, etc.) and would also vary across industry within multi-industry firms. Practices are, and should be, visible to those most directly affected. Attempts to disseminate information about practices that are not targeted to a specific audience (mass communication) will most likely result in significantly less attention to the chosen medium over time, weakening the organizational situation.

As described by Wright and Nishii (2004), there are often intended HR practices (those which management intended to implement), actual HR practices (those actually implemented by multiple supervisors spatially distributed in the organization), perceived HR practices (those practices as they are interpreted by individuals in the employee population), and finally, the individual employee reactions to those practices. In large, complex, and multi-geographic companies the number of potential permutations for this simple chain is exponential. Communication alone is not likely to result in all employees choosing the same reaction based on an intended HR practice. A strong situation, which helps all employees reach a common shared understanding, minimizes the variance in the perceived HR practice, and helps employees select the appropriate behavior to support company objectives. So even when the intended HR practice is altered through multiple supervisors, employees in a

strong situation are still likely to perceive a practice close to that which was intended, and to choose the appropriate discretionary behavior.

In the case of this unique sample, with multiple supervisors across more than one hundred locations implementing a range of HR practices, the opportunity to send conflicting signals to employees would seem to exist. While a compensation practice (team-based bonus pay for timely truck departures) might encourage employees to work faster, it may also encourage employees to pay less attention to ensuring that the load on each truck is complete and accurate. A second practice aimed at producing full trucks might slow departures. And a third practice aimed at promoting accurate truck loads might result in more missed shipping times. When confronted with all three practices simultaneously, how does an individual employee choose an appropriate reaction? With the need to simultaneously balance or optimize timeliness and accuracy, employees are more likely to make the best (or the right) choices when the signals from management (satisfied customers want timely and accurate deliveries) are unambiguous. At the lower level of the individual practice there may be complexity and even conflict. At the higher level of climate, the sense-making process is capable of focusing on more complex outputs, such as customer satisfaction. A strong situation (climate) may in fact be able to attenuate the impact of an inappropriate or outdated practice; employees will know to ignore that input in favor of the higher order goal of satisfying customers.

How then do organizations create strong situations? What qualities are required to get employees to internalize higher level goals and to balance or optimize the trade-offs inherent in every decision situation? How do you get employees to think about the organization's objectives, not just their own? How do you get groups of employees to

collectively internalize and consistently act on organizationally important goals? In the next section I explore the concept of legitimacy, and then apply that concept to the creation of strong situations.

Legitimacy

Suchman (1995) defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (p. 574). More specifically, DiMaggio and Powell (1983) indicate that normative isomorphism contributes to legitimacy and results from the power of professionals in organizations to exert control over how the organization operates such that it conforms to professionally determined norms. It is my contention that human resource organizations have not universally achieved legitimacy, and that the professionalism (and impact) of HR organizations within firms varies. This variation in legitimacy may limit the ability of the HR function to create the strong situations necessary for the proper transmission of signals from management to employees.

Legitimacy of Authority

Although Bowen and Ostroff (2004) seem to argue that visibility, understandability, relevance, and legitimacy of authority are equal in their importance and impact on situational strength, I argue that the legitimacy of the HR function’s authority can be viewed as a condition precedent to the other three.

Legitimacy of authority, I suggest, is not a function of HR practices, which has been the focus of most of the HRM–performance literature. Instead, I see the reverse relationship, that effective HR practices are at least in part a function of the legitimacy

of authority of the human resources function. That is, HR functions that are perceived as a legitimate authority broadly in an organization are more likely and better able to produce and implement practices that have the desired impact on employee behavior. Conversely, HR functions that are not—or are not perceived by the organization to be—legitimate, will have lower ability to design, produce, and implement efficient and effective HR practices. Thus, I argue that a key process metafeature of an HRM system is the legitimacy of the HR function in the organization. This construct of HR legitimacy incorporates considerably more organizational context, and extends the discussion beyond the existence or selection of practices to their implementation and execution, critical aspects in producing business results.

While distinctiveness, consistency, and consensus are all given equal weighting in Kelley's (1967) covariation model, for the purpose of this study the focus will be on distinctiveness. The nature of the sample, which is explained in a later section, minimizes the impact of consistency and consensus by controlling the number of people involved in sending signals to employees at any one location.

According to Kelman and Hamilton (1989), when an individual submits to the performance expectations of another, the other is said to be a legitimate authority. The process involved is essentially perceptual. In the organizational setting, it often means submitting to the necessities of a cooperative system (Barnard, 1938, as cited in Bowen & Ostroff, 2004). In this case, the cooperative system is the firm, the performance expectations are related to the firm's strategic objective, and one form of "authority" is the HRM system.

Bowen and Ostroff (2004) listed several specific features that would most likely result in the HRM system being perceived as authoritative. First, the function must be perceived as high-status and high-credibility. This is likely, they suggest, when HRM has significant and visible top-management support (which can be achieved through investment in HR practices or the HR function). They also suggest that perceptions of authority are enhanced by placing the HR director in a high-level managerial position. They argue further that support for and investment in HRM sends a signal from top management that HRM is “legitimate” or “credible” (Bowen & Ostroff, 2004, p. 209).

I therefore argue that HR practices do not lead to legitimacy of authority of the HR function, but rather, the legitimacy of authority of the HR function affects the perception of HR practices through shared organizational climate. When functional HR is perceived as a legitimate partner in the business, employees will attend to the signals sent by the HRM system and will have or will seek to develop a common understanding of the meaning of the signals and will behave in ways that support organizational objectives. Employees will also have an incentive and a desire to seek clarification (from a legitimate HR function) whenever those signals are mixed or otherwise confusing.

This notion of HRM legitimacy allows for the integration of the popular-press notion of the “seat at the table” for HRM in the HRM firm-performance discussion. With HRM re-conceptualized as signals from management to employees about behavioral expectations, it becomes critical that those signals be clear and unambiguous, and also that they suggest behaviors that will actually promote the strategic objectives of the unit or firm. For the HR function to be perceived as a credible source and for it to also be intimately familiar with strategy and competitive advantage, it is reasonable to

assume a frequent and intimate relationship with those in the organization who have positional authority. Lado and Wilson (1994) suggest that the exchange of tacit knowledge between line management and HR professionals is critical to the formulation and implementation of a strategy and to an effective HRM system. Only when HR professionals are well informed on strategic issues (through frequent and meaningful interaction with higher management) and seen as a legitimate authority (by the employee population) can they be expected to send clear signals that will be accepted as relevant and acted on by employees. Thus, the relationship between key HR professionals and other organizational leaders is a critical determinant of overall HRM system strength. Especially important is the frequency of contact and the range of issues over which HR professionals interact with line management.

This discussion of legitimacy of authority has implications for the structure of the HR function; the knowledge, skills, and abilities (KSAs) of those in the HR function, including their knowledge of both business and the specific business they are in; and the orientation and expectations of line management toward HR and the people in the HR function. As mentioned by Bowen and Ostroff (2004), legitimacy can be enhanced by organizational proximity. That is, an HR professional directly reporting to the top leader in a unit or firm is likely to be perceived as more legitimate than an HR manager reporting to any other leader in that unit or firm. Such proximity implies that the leader has some level of expectations regarding the output of HRM and is more likely to place demands on the function to support strategic objectives. These higher level demands suggest that the HR function must be made up of individuals with the capability required to operate at a strategic business level.

Thus, I measure HR legitimacy as a continuous perceptual variable, made up of items that tap three critical areas: general HR competencies (technical), business acumen (strategic), and management expectations (personal). To avoid socially desirable biases, I collect this perceptual data from the top manager in the unit, not from the senior HR person as has been done in previous research.

Following the Bowen and Ostroff (1994) logic, when an HR function is high in legitimacy, it will participate in high-level strategic discussions with line management, and it will be perceived as an authority by employees. HR practices created and implemented by a function high in legitimacy will be more closely linked to strategic objectives, and will be more likely to be attended to by employees. Under such circumstances, individual psychological climates will be similar, and will aggregate to a shared organizational climate that will guide sense-making and ultimately employee behavior. Behaviors consistent with strategic objectives, and consistent with each other, will drive performance at the firm level.

The complete model then is one which postulates that HR practices are positively related to performance through organizational climate, and that HR Legitimacy moderates the relationship between high performance work practices and organizational climate, which will be positively related to employee discretionary behaviors and ultimately to important business outcomes.

CHAPTER 3: HYPOTHESES

Considerable prior research across multiple industries and geographies has established a relationship between how people are managed and the performance of the firm (Combs et al., 2006). Scholars have recently turned their attention to the more proximal variables through which this effect manifests (Collins & Smith, 2006). With limited scholarly exception, the role and contribution of the human resources function has been largely ignored to date in this exploration of the black box.

Using the resource-based view of the firm (Barney, 1991) and the theoretical structure proposed by Bowen and Ostroff (2004), it is my intention to establish that not only does how people are managed matter with respect to firm performance, but that the quality and capability of the human resources function and the expectations of line management also matter in establishing the degree to which human resources matters. That is, that when the human resources leader is both functionally competent and knowledgeable of the specific business, and the line leader believes that human resources is an important contributor to performance, then those businesses (or units) will on balance perform better than businesses or units where those three dimensions are rated lower. Following the empirical contribution of Collins and his colleagues (2003, 2006), I propose that high performance work practices directly affect organizational social climate, which in turn affects employee discretionary behavior, which is positively associated with unit performance (Bowen & Ostroff, 2004; Collins & Clark, 2003; Collins & Smith, 2006).

Collins and Smith (2006) suggest that while organizational social climate is a mediator of the practices–performance link, in this case climate is not generic, but that it is

critical to “identify the social climates important for the companies in their samples, because the social climate conditions that drive performance will likely vary within the industry conditions those companies face” (p. 551). In the sample surveyed for this study, a critical social-climate dimension important for success is the degree of customer focus reflected broadly across the organization. This is a highly competitive, relatively low-margin distribution business with multiple competitors at the local, regional, and national levels. The key to retaining existing customers is high-quality service, which means delivering to them what they ordered, when they ordered it. Because they ship literally hundreds or thousands of items and in many cases make daily deliveries, a high degree of customer consciousness helps to assure accurate and timely shipments. Consistent with Collins and Smith (2006), it is expected that high-commitment human resources practices will help attract, retain, and motivate a workforce that is “committed” to high levels of customer service.

Hypothesis 1: High-performance work practices will be positively related to an organizational social climate for customer satisfaction.

While climate is important, for there to be tangible benefits of having created this positive climate, there needs to be some physical enactment or implementation of that positive climate. Employees must be encouraged to focus on the larger community of the organization rather than on their own best interests (Collins & Smith, 2006). In the case of this sample, the workforce must translate that positive attitude into behaviors that lead to highly accurate and timely shipments to customers. The balance between accurate and timely is critical: employees must be motivated at once to work quickly to meet critical schedules, but they must also keep in mind that a timely but inaccurate order will result in a dissatisfied customer just as will a late but accurate shipment.

Thus the HR practices used must help to attract, retain, and develop a workforce that is capable of implementing a strategy of meeting customer needs for timeliness and accuracy on every single shipment. That is, the employee must internalize the organizations goal of timely and accurate shipments, and behave in ways that support this objective on a consistent basis.

Hypothesis 2: Organizational social climate will be positively related to employee discretionary behavior for customer service.

Finally, when employees submit to the goals of the organization and demonstrate behaviors (including helping each other in critical times) that maximize customer service (timeliness and accuracy), their discretionary behavior (Wright et al., 2001) helps the organization satisfy customers, which helps it retain its existing customer base and can be used to attract new customers who may not have the same experience with their current supplier. Thus, companies and organizations that encourage and enjoy high levels of positive discretionary behavior from their employee population will enjoy higher productivity and will perform better than companies or units that do not.

Hypothesis 3: Employee discretionary behavior for customer satisfaction will be positively associated with higher levels of productivity and performance.

Creating and maintaining a complex set of human resources practices that send the right signals to employees about behavioral expectations and decision-making guidelines is not simple. For example, creating a selection system that allows for the positive identification of employees who are customer-focused may be relatively easy,

but simultaneously identifying individuals who can maintain accuracy at high rates of speed is more difficult. And creating an incentive system capable of fine-tuning already high levels of employee commitment to drive higher delivery accuracy requires a deep understanding of the workforce, the business, and the dynamics of incentive pay. And finally, having the kind of relationship with senior line leaders that allows for access to critical information and provides a platform for the discussion of proposed improvements is critical if the complex system (Colbert, 2004) is to be maintained as the environmental conditions fluctuate. These three ingredients, human resources functional competency (technical), understanding of the business (strategic), and the relationship of human resources with line management (personal), are predicted to vary across organizations. Where all three are high, it is expected that the human resources practices developed and implemented will send better and more consistent signals to employees, enabling them to make better decisions about the behaviors needed to drive the organization's success, regardless of their own interests.

Hypothesis 4: Higher values of human resources functional competency, business acumen, and management expectations (HR legitimacy) will moderate the positive relationship between HR practices and shared organizational climate. More specifically, HR functional competencies, HR business acumen, and the expectations of line management will individually interact with high-commitment work practices to create stronger organizational climates leading to the adoption of discretionary behaviors that will support firm performance.

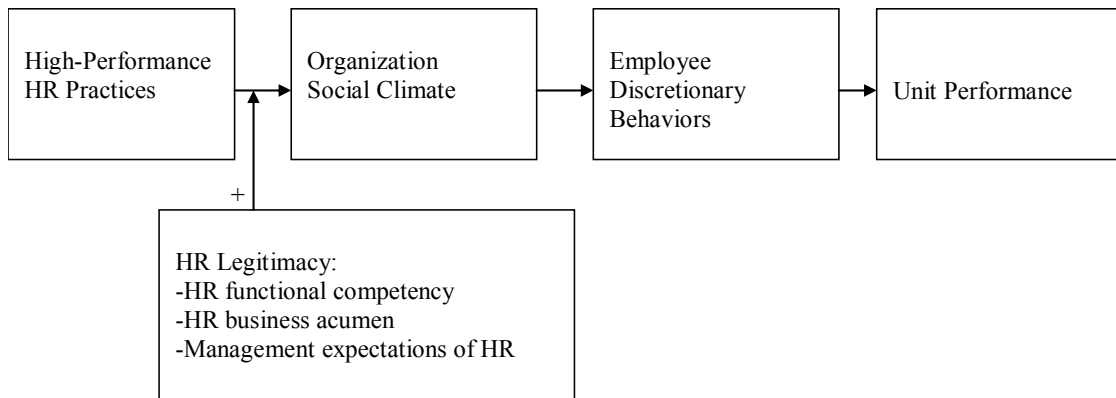


Figure 1. The moderating role of human resource legitimacy. HR = human resources.

The full model is then one which relates HR practices to firm performance through organization social climate and employee discretionary behavior. The practices–social climate link is moderated by HR legitimacy.

CHAPTER 4: METHODS

The field of strategic human resources studies has been criticized for its reliance on single-respondent surveys (Gerhart, Wright, & McMahan, 2000) and its nearly universal reliance on cross-sectional data (Huselid & Becker, 1996), and for the limited use of “hard” organizational performance data (Delaney & Huselid, 1996). There has also been a suggestion that to more completely understand the full organizational dynamics, additional context must be taken into account (Chadwick & Capelli, 1998; Wright & Haggerty, 2005). In designing this study I endeavored to develop methods that used this criticism in a constructive way.

This study extends the work of Wright and Gardner (2003) and is conducted in the same food services corporation and with a similar sample size. While their paper studied the links from HR practices through organizational commitment (collected with an employee survey in Time 1) to a variety of operational measures, expenses, and profits (from archival data at fiscal year end, some three to nine months after the survey data was gathered), this study looks at the same practices, but explores their relationship with both organizational climate and discretionary behaviors (as suggested by Wright and Gardner, p. 33) as mediators between practices and performance measures.

Wright and Gardner (2003) used two data sources; this study uses three distinct data sources. First, in the studied organization there is a long-standing practice of administering a broad all-employee survey in each location about once every 18 months. The survey utilized was originally developed by a leading macro HR researcher (Patrick M. Wright) in conjunction with the then senior leader of human

resources in the company. While one purpose was to continuously gauge the attitude and satisfaction of the workforce, it was also designed to test the theory that people are a key component in the creation of profit. The survey, conducted both online and on paper at the choice of local leaders, contains 87 items. Those items aggregate into two major clusters, labeled as follows:

Job Satisfaction—leadership support, strength of front-line supervisor, quality of work life, customer focus, rewards, engagement, work values, and discretionary behaviors.

Management Practices—the degree to which certain recognized high-performance or high-commitment work practices are perceived to exist within each reporting unit.

Employee perceptions of high-performance work practices are measured using this instrument for the survey year 2006–2007. Measures of HR legitimacy (HR functional competency, HR business acumen, and management expectations) were collected using an instrument designed specifically for this dissertation. It contained 21 items, measuring three distinct constructs:

HR functional excellence (skills/KSAs, technical dimension)

HR business acumen (strategic dimension)

Senior leadership expectations of HR (personal or relationships dimension)

The underlying theoretical argument is that to be most effective, HR practices must be interpreted in similar ways by employees, who then subordinate their own interests and choose appropriate behaviors to drive the desired business outcomes. HR leaders

with strong functional skills and deep business knowledge will be best positioned to develop, implement, and continuously adapt practices as business needs change. When coupled with a business leader that expects and demands that HR play this critical “strategic” role, this legitimacy helps to create and maintain the “strong situations” envisioned by Bowen and Ostroff (2004).

Thus the view of the skill level in both HR (technical) and in business (strategic) of the HR leader is measured using the perceptions of the senior business leader in these two key areas. Additionally, a third area of this survey of the business leadership gauges the degree to which unit presidents see HR as a true, valued member of their staff and as a full contributor to the business (personal philosophy).

The senior leadership survey was administered in the summer of 2008. The initial desire was to survey over 100 unique locations nationwide, but after extensive discussion the survey was administered to 56 locations in two regions.

While perceptual measures of performance have often been used in the strategic HR literature, it was a goal of this study to use hard measures. In the past, researchers have had access to a considerable amount of company data tied to the performance of each individual location. The data reflected both financial and operational variables, and had been provided routinely for seven years.

Since employee and leadership data were collected in 2006 and 2007, it was critical to receive 2008 financial and operational data to avoid predicting past performance. The data were provided directly from the organizations’ finance function, and reflected the broad metrics against which they assess the performance of their locations.

Thus, the data set for this study is composed of employee satisfaction/commitment data from a broadline survey conducted every 18 months at each location, data from a unique survey of the location leaders created exclusively for this dissertation, and financial and operational metrics provided by the studied company's accounting function. The managerial perceptions and performance data are for the year following the data collection from employees.

The unit of analysis is the operating unit or location. In the first instrument, employee data were collected with a detailed, broadline work-climate survey that included 82 scaled items, three areas for open-ended narrative input, and seven demographic questions. Scaled questions cover job satisfaction (leadership support, strength of front-line supervisor, quality of work life, customer focus, rewards, engagement, work values, and discretionary behaviors) and management practices. The survey instrument was designed and administered by a major university at the request of the human resources vice president, and has been administered such that every location is surveyed once in eighteen months. There have been five waves. This paper will utilize the most recent wave, conducted in 2006 and 2007. Measures for HR practices, organizational social climate, and discretionary behaviors are derived from specific survey items.

A second instrument was specifically designed for this study, and will be used to capture input from the top manager at each location. Items (6) regarding the business acumen of the HR professional(s) were adapted from Stern and Walters (2005). Items (6) regarding the human resources competencies of the HR professional(s) were adapted from Ulrich, Brockbank, Yeung, and Lake (1995). Items (7) regarding the expectations of line management for the HR function were developed by the author for

this study. They are consistent with the Bowen and Ostroff (2004) descriptions of the legitimate relationship between HR and line management, and with Wright, Gardner, and Moynihan's (2006) notion of management philosophy. These items were first tested for validity with a group of human resources graduate students, and then refined and validated with a group of 11 senior human resource executives. Online surveys of the president at each location were conducted, again by the third-party administrator affiliated with the major university. The measures of HR Legitimacy were derived from this instrument.

Financial and operational data, detailed at the unit level, are provided electronically at the close of each fiscal year by the company. Data from fiscal year 2007–2008 were matched with survey data from 2006–2007, allowing for a lag between the measurement of HR practices and firm or unit performance. The dependent variable was taken from this data, and was objective.

The food services firm allows considerable operational freedom with respect to HR practices by location, while focusing on key operational metrics and financial metrics that are uniform across the entire corporation. Thus, levels of investment in HR can and do vary by location, resulting in the adoption (or non-adoption) of a range of HR practices. Because the food services company operates in essentially one industry, and because it manages the size of each location within an optimum band by breaking those that exceed the upper limit into two, or combining those below the limit, much of the noise associated with cross-industry studies is controlled for in the design.

Dependent Variable

Payroll\$ per Piece Shipped Variable (Archival)

The studied organization provided a wide range of financial and operational metrics at the unit level. Consistent with the theoretical approach of this paper, the dependent variable selected for use was payroll\$ per piece shipped. This is an operational metric that measures productivity or efficiency at the unit level by dividing total payroll dollars paid in the period by the total number of pieces shipped in the period. Pieces returned due to errors in shipment are not recounted when shipped a second time, thus the metric accounts for both the efficiency of the shipment (direct labor dollars) and the accuracy of shipments. Overtime and other premium time (holiday work, etc.) is discouraged by this metric.

As provided for FY 2008 (the year following the collection of the employee data), the minimum (best) level of payroll\$ per piece shipped was 2.35, the maximum (worst) was 3.67, and the mean was 2.94, with a standard deviation of 0.28. Given the nature of this dependent variable a negative relationship with predictor variables is expected.

Independent Variables

Broadline Employee Climate Survey

Practices Variable. The broadline climate survey contains 15 questions that relate to the degree to which certain recognized high-performance HR practices are utilized in the unit. Because central corporate HR does not dictate any minimum requirements across all divisions, the units are free to implement or not implement HR practices. Items 1 through 12 are scored on a scale designed to determine whether each employee is aware of the practice. For example, Item 1 says: “formal tests are used when being considered for hire at this location.” The available choices are *yes*, *no*, and

don't know. For the purposes of this study categories two and three were combined, and a ratio of *yes* to *no/don't know* was calculated. A principal component factor analysis of the individual responses revealed a single factor with a total Eigen value of 11.00. Cronbach's alpha was acceptable at 0.95. ICC 1 was .06; ICC 2 was 0.41. After factor and reliability analysis, individual employee responses at each location were aggregated, and an overall score for the unit was calculated as the average of the individual scores. The minimum value measured at the unit level was 0.43; the maximum was 0.71, with a mean of 0.60 and a standard deviation of 0.06. Thus, perceptions of the degree to which practices are utilized vary considerably across units within the sample. Sample questions are contained in Appendix A.

Climate Variable. The broadline climate survey contains 15 items that deal with how the employee perceives the work climate in his or her location. Six of these items are subgrouped under the title "customer focus." Item 1 reads, "I am committed to doing quality work and providing quality service." Items are scored on a 5-point Likert-type scale, from 5 (*strongly agree*) to 1 (*strongly disagree*). Confirmatory factor analysis of the 6 items across the total employee population revealed a single factor with acceptable loadings. Reliability was acceptable with Cronbach's alpha of 0.97, an ICC 1 of 0.15, and an ICC 2 of 0.73. All employee scores were aggregated to the unit level. The minimum climate score was 3.51, the maximum was 4.22, the mean was 3.82, and the standard deviation was 0.163. Specific questions are contained in Appendix A.

Discretionary Behavior Variable. The employee survey contains 6 items intended to track the degree to which employees use their discretionary effort to support each other, the customer, and the goals of the business. Items are scored on a 5-point Likert-type scale, from 5 (*strongly agree*) to 1 being (*strongly disagree*). Example

statements include “I encourage others to try new and effective ways of doing their job,” and “I help others who have large amounts of work.” Confirmatory factor analysis of the 6 items across the total employee population revealed a single factor with solid loadings. Reliability was good, with an ICC 1 of 0.16, and an ICC 2 of 0.56. In addition, the Cronbach’s alpha score for the set was 0.93. After aggregation to the unit level, the minimum discretionary behavior score was 4.11, the maximum was 4.50, and the mean was 4.33. The standard deviation was 0.09. Sample items can be found in Appendix A.

Survey of Unit-Level Presidents

Two regions (Northeast/Northcentral and Southern) were approved to be surveyed by the chief human resources officer of the company. There were 56 locations in total, and 50 of the 56 unit presidents completed a survey (89.29%). This unusually high survey-participation rate was motivated by the involvement of the corporate HR leader, and by the promise of a contribution to charity on behalf of those units responding. Matching financial data from the corporate accounting office were provided for 47 of the 50 responding units, and missing data resulted in the further elimination of 3 units, netting a final case count of 44. The online survey was hosted and conducted by the same statistical company that hosts and administers the broadline employee survey. The unit president survey was conducted in November and December of 2008. Specific questions are listed in Appendix B.

Human Resources Competency Variable. Earlier work by a variety of scholars has established a series of competencies that differentiate the best HR functional leaders. The items utilized in this survey were adapted from Ulrich et al. (1995). There are 6 items, focusing on key areas of the HR domain including staffing processes, employee

development processes, appraisal systems, reward systems, organization structure, and employee communications. Unit-level presidents were asked to rate their HR leader on a 5-point Likert-type scale from 5 (*strongly agree*) to 1 (*strongly disagree*).

A principal-component factor analysis was conducted with varimax rotation, and all 6 items showed acceptable loadings on a single factor. Cronbach's alpha for the president's responses was 0.89, ICC 1 was 0.47, and ICC 2 was 0.84. After aggregation, the minimum score recorded for HR functional competency was 2.17; the maximum score was 5.00. The mean response was 3.81, and the standard deviation was 0.71.

HR Business Acumen Variable. The items used to measure HR business acumen were adapted from an instrument originally designed to measure the business acumen of CFOs (Stern & Walters, 2005). The questions deal with the degree to which the individual being measured participates in the business planning process, considers key financial indicators when making decisions, benchmarks progress against competitors, speaks the financial language of the business, and understands the needs of external customers. The 6 items are measured utilizing a 5-point Likert-type scale, from 1 (*strongly disagree*) to 5 (*strongly agree*).

Confirmatory factor analysis of the 6 items revealed a single factor with adequate loadings for all items. Reliability tests showed a Cronbach's alpha of 0.85 for the 6 items, and an ICC 1 of 0.47 and an ICC 2 of 0.84. After aggregation the minimum recorded score for HR business acumen was 2.00, the maximum was 5.00, the mean was 3.77, and the standard deviation was 0.83.

Management Expectations Variable. Measures of the competency and business acumen of the HR leader tell a portion of the story. If the operating leadership is not interested in or equipped to appreciate the potential contributions of a highly competent human resources professional, the opportunity for contribution is diminished. This scale, created for this paper, attempts to quantify the degree of receptiveness of the line leader to the contributions of HR. For example, the first item says, "I believe that how we manage people is as important as our products and services in determining our success in the market." These items are scored on a 5-point Likert scale from 1 (*strongly disagree*) to 5 (*strongly agree*).

Factor analysis of the 9 items initially revealed loading on 2 items. Further analysis showed that 1 item loaded heavily on a second factor, and that item was eliminated. The resulting 8-item scale loaded cleanly on a single factor. Cronbach's alpha for the remaining 8 items was 0.90, and ICC 1 was 0.46, while ICC 2 was 0.87. After aggregation the average minimum score recorded was 2.75, the maximum was 5.00, the mean was 4.26, and the standard deviation was 0.65.

Hypotheses 1, 2, and 3 were tested with OLS regression in stages with climate, discretionary behavior, and payroll\$ per piece shipped serving as DVs in succession. Hypothesis 4 was tested in an OLS regression with the interaction terms (practices \times HR competency, practices \times HR business acumen, and practices \times management expectations of HR) loaded individually and evaluated using the change in R^2 and the significance of the change. Statistically significant interactions were graphed according to the process outlined by Aiken and West (1991). Although this study takes place within multiple units of a single enterprise, the units vary in size. Because

economies of scale can be expected to influence the DV (payroll\$ per piece shipped), I control for size using unit-level sales dollars.

CHAPTER 5: RESULTS

Table 1 shows the correlations for all the variables used in this study, and Table 2 shows the means and standard deviations. Complete regression results are contained in Table 3.

Before analyzing the results of individual regressions it is important to note and acknowledge the potential impact of multicollinearity among several of the independent variables (Cohen, Cohen, West, & Aiken, 2003). The independent variables from the employee-survey instrument, HR practices, social climate, and discretionary behavior, are all correlated with each other: practices on climate = 0.64; practices on discretionary behavior = 0.51; climate on discretionary behavior = 0.78, and all inter-correlations are significant at $p < 0.01$. Similarly, the three independent variables from the survey of unit presidents, HR competencies, HR business acumen, and management expectations, are correlated with each other: HR competencies on HR business acumen = 0.82; HR competencies on management expectations = 0.72; HR business acumen on management expectations = 0.53, and all are significant at $p < 0.01$.

There are a number of potential problems related to the interpretation of analysis results when independent variables are moderately to highly correlated. For example, multicollinearity can inflate the variance of the parameter estimate, especially in small and moderate sample sizes, resulting in a lack of statistical significance of independent variables, wrong signs, and magnitudes of coefficient estimates (Cohen et al., 2003).

Table 1. Correlations

Control Variables		PRACTICES	CLIMATE	DISC.BEHAV.	HR Compet.	HR Bus.Acu.	Mgmt. Exp.	cPracticesxcHRCompet	cPracticesxcBusAcum	cPracticesxcMgmtExp
"Sales \$	PRACTICES	1.0000								
	CLIMATE	0.6041 **								
	DISC.BEHAV.	0.5103 **	0.7796 **							
	HR Compet.	0.2716	0.2601	0.2297						
	HR Bus.Acu.	0.3351	0.3933 **	0.4651 **	0.8204 **					
	Mgmt. Exp.	0.3697 *	0.3392	0.2201	0.7206 **	0.5291 **				
	cPracticesxcHRCompet	0.1177	0.2092	0.0532	-0.0127	-0.1570	0.0902			
	cPracticesxcBusAcum	0.0938	0.1137	-0.0311	-0.1641	-0.3012 *	-0.1197	0.8170 **		
	cPracticesxcMgmtExp	-0.1061	-0.0776	-0.0620	0.0477	-0.1481	0.0640	0.6276 **	0.3991 **	
	Payroll\$ Per Piece Shipped*	0.0313	-0.0678	-0.0603	-0.1449	-0.2000	-0.0705	0.1338	0.1633	0.0560

Table 2. Descriptive Statistics

	Mean	Std. Deviation	N
PRACTICES	.6041280782	.06390783359	44
CLIMATE	3.8221884029	.16875574427	44
DISC.BEHAV.	4.3195648120	.09611204133	44
HR Compet.	3.8068181818	.71251563455	44
HR Bus.Acu.	3.7651515152	.83241669107	44
Mgmt. Exp.	4.2642045455	.64880027312	44
cPracticesxcHRCompet	.0120778625	.03661983752	44
cPracticesxcBusAcum	.0173912888	.04869736193	44
cPracticesxcMgmtExp	.0148693851	.03563588476	44
Payroll\$ Per Piece Shipped*	2.9444013627	.27683942345	44
Sales \$	3.7646328617E8	1.56522620076E8	44

Further analysis was conducted using the variance inflation factor (Cohen et al., 2003). Independent variables were regressed on the dependent variable (payroll\$ per piece shipped), and collinearity statistics were calculated for each predictor. The variance inflation factors ranged from 1.290 (sales\$) to 5.359 (HR competency), but all were well below the level of 10 generally acknowledged as indicating a significant collinearity problem. Analysis was repeated using all standardized predictor variables, and results did not change as a result of the use of unstandardized variables.

While the variance inflation factors appear to fall within an acceptable tolerance, it is important to acknowledge that this data set contains a limited number of observations ($n = 44$), so care must be taken in making inferences from the results.

Cohen et al. (2003) suggested several remedies for multicollinearity:

Table 3. Regression Analysis Results of Social Climate and Functional Human Resources Variables Predicting Unit-Level Performance

Variable	Model 1	Model 2	Model 3	Model 4
SALES \$	(.481)**	(.507)**	(.488)**	(.498)**
<u>Organizational Variables</u>				
High Commitment HR Practices		0.101	0.123	0.11
Social Climate for Customer Service		-0.103	-0.110	-0.172
Employee Discretionary Behavior		-.027	0.074	0.100
<u>Functional Human Resources Variables</u>				
HR Functional Competency			0.059	0.038
HR Business Acumen			-0.262	-0.215
Line Management Expectations of HR			0.009	0.016
<u>Interactions</u>				
HC HR Practices x HR Functional Competency				0.119
HC HR Practices x HR Business Acumen				0.030
HC HR Practices x Line Management Expectations of HR				-0.070
Total R2	.231	0.242	0.275	0.286
Change in R2		0.011	0.033	0.011

n=44. *p<.05. **p<.01

Model Re-specification—where the independent variables are not individually of theoretical importance, it is sometimes possible either to eliminate one or more, or to combine them by taking an average and reducing the number of variables in the model, thus reducing collinearity. In this particular study, each of the independent variables plays a theoretically critical role, and the test of interactions requires that the variables remain as originally specified.

Collection of Additional Data—often the problem of multicollinearity can be reduced by including additional observations in the sample. This option was not available because of the difficulty in obtaining the original sample, and because of the change in leadership in the sampled organization. A complete repeat of this study, in a larger host organization, is advisable.

Given the suggestion of multicollinearity and the limited number of observations in this data set, care is taken in analyzing results.

A second significant problem is revealed in the correlation matrix. Baron and Kenny (1986) outlined four conditions that needed to be satisfied to show mediation. First, the predictor variables must be related to the dependent variable. Second, other independent variables must be related to the mediator variable. Third, the proposed mediator variable must be related to the dependent variable. The fourth condition defines full mediation as the change in the relationship between the independent variable and the dependent variable to nonsignificant in the presence of the mediator variable (Baron & Kenney; 1986).

In this sample of 44 units, all of the predictor variables fail Baron and Kenny's (1986) first test: there is no statistically significant relationship between HR practices, climate, or discretionary behavior and the dependent variable, payroll\$ per piece shipped. Additional analysis using all available financial and operational metrics revealed the same result. That is, after accounting for the effects of size (sales dollars), there was no statistically significant relationship between the predictor variables (including the mediator) and the dependent variable, in this sample. A related regression of the aggregated "survey" variable used by the host organization in its internal analysis against a variety of available dependent variables showed identical non-significant results.

While multicollinearity may account for the lack of statistical significance described above, as discussed, the options of re-specifying the model or collecting more data are not available at this time. The remaining analysis should be viewed in light of these serious caveats.

Finally, while moderator effects are frequently found in experimental study designs, they have proven more elusive in field-based studies, and even when they are found, they often explain relatively little additional variance (McClelland & Judd, 1993).

While this study has some characteristics similar to an experiment (it was conducted within 44 very similar locations of a single company), the sample size is inadequate to fully test the importance of the proposed moderators to the empirically known relationship between HR practices and unit or firm performance.

Recognizing the serious concerns outlined above, there are still several interesting results in this study. I first follow the analytical framework of Collins and Smith

(2006), and then I contrast these results with the analytical approach used in the similar earlier study by Wright and Gardner (2003).

Hypothesis 1 predicted that high-commitment work practices would be positively related to an organizational social climate for customer focus. Table 4 shows the results of the OLS regression of practices on social climate, after controlling for sales. There is strong support for Hypothesis 1 (beta 0.60**). Consistent with Collins and Smith (2006), commitment-based HR practices were positively and significantly related to the organizational social climate for customer focus.

Table 4. Regression Analysis Results of Human Resources Practices Predicting Organizational Climate

Variable	S. Beta
SALES \$	(.240)*
<u>Social Climate Variables</u>	
High Commitment HR Practices	.586**
Total R ²	.402

n=44. *p<.05. **p<.01

Table 5 shows the results of the regression analysis predicting employee discretionary behavior. After accounting for the effects of sales (size), organization social climate is a significant predictor of employee discretionary behavior (beta 0.764**), providing support for Hypothesis 2. Interestingly, in this analysis, the effect of HR practices is drastically reduced (0.062) and turns non-significant, suggesting that organization social climate fully mediates the relationship between HR practices and employee discretionary behavior.

Table 5. Regression Analysis Results of Climate Predicting Discretionary Behavior

Variable	S. Beta
SALES \$.140
<u>Social Climate Variables</u>	
Climate	.802**
Total R2	.609

n=44. *p<.05. **p<.01

In Table 6 the dependent variable is added (payroll\$ per piece shipped), and with the exception of the control variable sales\$, none of the predictor variables are significantly related to performance. While discretionary behavior shows a negative relationship with payroll\$ per piece shipped as hypothesized, the relationship is weak and non-significant (-0.027, ns). Hypothesis 3 is not supported.

While not statistically significant, all of the relationships between the independent variables and the dependent variable are in the predicted direction with the exception of HR practices and management expectations. However, none of the interaction terms are significant in this analysis, providing no support for Hypothesis 4.

Table 6. Regression Analysis Results of Discretionary Behavior Predicting Payroll\$ per Piece Shipped

Variable	S. Beta
SALES \$	(.484)**
<u>Social Climate Variables</u>	
Discretionary Behavior	(.053)
Total R2	.234

n=44. *p<.05. **p<.01

Because of their small sample size (50), Wright and Gardner (2003) utilized bivariate correlations. Similar bivariate correlations for all the variables in this study ($n = 44$) are shown in Table 1. In both studies, the relationship between HR practices and the dependent variable payroll\$ per piece shipped (a measure of productivity) is non-significant (despite substantial differences in methodology, which will be discussed later). There is also significant collinearity between the two predictor variables (HR practices and commitment) in the Wright and Gardner study, and between the three predictors (HR practices, organizational social climate, and discretionary behavior) in this study. Wright and Gardner, however, find statistically significant relationships between practices and operating expense (-0.40**) and between HR practices and profit (0.35*). Though not reported, no similar relationships were found in this study.

While support for the theory that HR legitimacy moderates the relationship between HR practices and unit of firm performance was not found, this study does confirm and extend the earlier work of Wright and Gardner (2003), and it also reinforces the conclusions of Collins and Smith (2006) regarding the importance of organizational climate in driving discretionary behavior. Additional contributions and suggestions for further research are outlined in the discussion section that follows.

CHAPTER 6: DISCUSSION

Summary of Results

This study contributes to the field of strategic human resource management in a number of ways. First, it departs from the tradition of studying the relationship between HR practices and distal measures of firm performance (Arthur, 1994; Combs et al., 2006; Delery & Doty, 1996; Huselid, 1995; Ichinowski, Shaw, & Prensushi, 1994; MacDuffie, 1995; Wright & Gardner, 2003). Using theory from communications and psychology, this study argues first that HR practices help to create an organizational social climate that performs as a “strong situation” (Bowen & Ostroff, 2004) and guides employees in the selection of discretionary behaviors that favor desired organizational outcomes. Further, this study suggests that certain features of an HR system (HR functional competency, HR business acumen, and line-management expectations) will interact with HR practices to provide stronger or weaker organizational social climates.

There were a number of goals embedded in this research project and dissertation. First, in recognition of one of the recent criticisms of strategic HR research (Gerhart et al., 2000), the data set used included archival measures of performance of practical importance to the host organization, extending the work of Wright and Gardner (2003). Second, it closely examined two mediating mechanisms (organizational social climate and employee discretionary behavior) shown in previous research (Collins & Smith, 2006) to be important in the practices–performance relationship. Third, it described and measured two new aspects of functional human resources skills (technical HR competency and business acumen) and one measure of line-management philosophy (expectations of HR) (Wright & Gardner, 2003), that it is

proposed would interact with HR practices to drive higher unit-level performance. And finally, in addition to using archival measures for performance, this study used two additional data sources (an all-employee survey and a survey of unit presidents) to avoid the single-source-bias criticism of much of the previous strategic HR literature (Gerhart et al., 2000).

The purpose of this research was to replicate the findings of Collins and Smith (2006) in an unrelated industry and sector, and to support their suggestion that organizational social climate is an important mediator in the HR practices–performance link, while extending that finding by adding three contextual variables collectively identified as HR legitimacy. It also extends the work of Wright and Gardner (2003) by taking up their suggestion that researchers test the behavioral responses of committed employees (p. 33).

To summarize, this study predicted that where HR functional competency, HR business acumen, and management expectations of HR are relatively high (high HR legitimacy), they will interact with HR practices to create stronger social climates (Bowen & Ostroff, 2004) and drive higher organizational performance. This notion of HR legitimacy is an extension of the work of Ulrich and his collaborators (Ulrich, 1997; Ulrich, Brockbank, & Younger, 2008; Ulrich et al., 1995), who have consistently identified business acumen and functional competency as important to the effectiveness of HR in organizations. While this description (and prescription) of HR competency has been widely reported and accepted, it has not been tested.

Consistent with prior research (Collins & Smith, 2006), HR practices were shown to have a significant and positive relationship with organizational social climate.

Specifically, HR practices helped to create a climate for customer satisfaction across all employees at a given location. Where more “high-commitment HR practices” were perceived by employees, those employees reported higher perceptions of a customer-service mindset.

Also consistent with Collin and Smith (2006), organizational social climate for customer service strongly predicted the selection of appropriate customer-focused discretionary behaviors. Where employees perceived their climate as favoring high levels of customer service, they reported higher perceptions of the choice of discretionary behaviors linked to customer satisfaction.

When regressed together (and after controlling for the effects of location size), the effects of practices on perceptions of discretionary behavior were greatly reduced and turned non-significant. That is, the effect of HR practices was fully mediated by the organizational social climate for customer service.

This is an important finding. Collins and Smith (2006) reported very high levels of mediation, but HR practices remained significant in their study. Taken together, the two studies provide some evidence that the general organizational climate provides more guidance on the selection of appropriate discretionary behavior than do perceptions of high levels of good HR practices. It may be that HR practices play some role in establishing organizational climate, but once established the climate guides behavior much more directly than does the collection of practices. This interpretation in turn supports the “strong situation” notion theorized by Bowen and Ostroff (2004). It is the general climate, not the existence of high levels of good HR practices, that drives behavioral choice.

The practical importance of this finding to both HR and line leaders is significant. Given the strength of the relationship between climate and discretionary behavior, it suggests that companies should routinely measure perceptions of organizational climate to be sure that the signals employees are being sent (through all mediums and channels) keep the most critical organizational goals in the forefront. It may also suggest that once an appropriate climate is developed, the impact of a change to the HR practices collection may be discounted. Efforts to change behavior by altering a single practice (or even multiple practices) may be attenuated or entirely dismissed when filtered through a strong pre-existing organizational climate. It might suggest that efforts to directly affect the climate are a better starting point, with changes to HR practices used to reinforce changes to the climate rather than the other way around.

The final step of the model proposed in this study, the link from discretionary behavior to tangible business outputs, produced non-significant results. While this is consistent with the results found for the same DV (payroll\$ per piece shipped, a measure of productivity) found by Wright et al. (2004), unlike their study, no significance was found with any available measure of performance in this study. This raises an interesting question: if, as many now suggest, employee discretionary behavior is a critical intermediate variable in the “black box” of strategic HR, how can it not be predictive of performance in this sample? Clearly, sample size and the potential for significant regional effects may be part of the issue, but if discretionary behavior truly drives performance one would still expect to see proof, even in a small sample. Additional tests of the relationship between discretionary behavior and performance are certainly suggested.

None of the hypothesized interaction effects proved to be significant. The three moderators (HR functional skills, HR business acumen, and line management expectations) had no significant effect on the relationship between HR practices and organizational social climate. Additional tests of and for an additive effect (summing all three variables and relabeling them as HR legitimacy+) also showed a non-significant interaction effect with social climate. The same was true for a test using the product of all three hypothesized variables (reabeled as HR legitimacy*).

Several reviewers of the theoretical arguments in this study suggested that the interaction between the proposed moderators and organizational social climate (and not HR practices) seemed more likely. Additional tests of this relationship revealed identical results. There was no significant relationship between the moderators individually, or as sum or product, with organizational social climate.

This lack of significance, however, should not be interpreted too concretely. According to Cohen et al. (2003), the minimum sample size to adequately test moderating effects when the direct effects are moderate is 492. With only 44 useable cases in this analysis it may simply be that power limits the ability to detect relationships that may exist. A more direct test of the moderating effects of HR legitimacy (and its theorized components) in a significantly larger data set is certainly warranted.

Additional Findings

There were a number of very interesting relationships revealed in this analysis that were not hypothesized but are worthy of reporting. Some are consistent with prior research, while others are novel and potentially interesting.

Consistent with Huselid et al. (1997), the measures of HR functional skills (similar to their measure of HR “technical” skills), were non-significant with respect to the employee perceptual variables of HR practices, social climate, and discretionary behavior. The measure of HR business acumen, however, was significantly related to practices, climate, and discretionary behavior after accounting for the effects of sales.

HR business acumen measures the perception of the business leader (president) of the degree to which the human resources leader in the location is financially savvy and able to converse with others at a detailed level not about HR, but about the business. It is an attempt to gauge the degree to which the HR leader is a business person doing HR, as opposed to an HR person doing HR. This notion of the importance of both general and tacit business knowledge has a long history in the literature, but has never been directly tested. Huselid et al. (1997) measured “strategic human resource skills,” operationalized as higher-level HR practices. The measure in this study clearly differentiated between business skills (largely financial skills) and HR technical-domain knowledge. Business skills among HR leaders correlated strongly with all three perceptual measures of practices, climate, and discretionary behavior.

While not hypothesized, these relationships suggest that employees perceive HR systems to be better when the HR leader has higher levels of business acumen, but not when the HR leader has higher levels of technical HR skills. This is a finding worthy of additional study. It is possible that there is some floor or threshold level of HR technical competence below which business acumen is irrelevant, but above which business acumen is important. There is at least the suggestion that driving a complex system such as the modern workplace requires the ability not just to implement the right practices but to carefully link those practices in ways that help to create the right

organizational social climate. This ability to comprehend and translate business intent into practices, climate, and discretionary behavior seems stronger when the HR leader is a stronger business person.

Finally, management expectations of HR, a measure of the degree to which the location leader (president) sees HR as a central and important function in driving business success, correlates significantly with the perceptual measures of HR practices and organizational social climate. That is, as management expectations of HR increase, employee perceptions of the existence of good HR practices increase, as do employee perceptions of a social climate for customer satisfaction.

Again, while not hypothesized, these findings are interesting and worthy of additional study. Is there some floor level of management expectation below which the effects on practices and social climate turn non-significant? Is there some level at which any returns for higher management expectations are diminished? What theory or theories might help us better understand the role management expectation plays in the formation and implementation of high-performance work systems? Just how important is the “management philosophy” of the leader in determining the efficacy of the HR system?

There is also the possibility of testing the interactions between management expectations, the two forms of HR competency (technical and business), and the employee perceptions of the HR system. Such analysis might help academics better prepare students for success in the field, and may allow for a more data-driven discussion regarding the right mix of skilled HR professionals and enlightened line leaders.

Inconsistencies with Earlier Research

The differences between the results of this study and the results reported in Wright and Gardner (2003) deserve a deeper discussion. There were a number of methodological differences between the two studies, despite their similar theoretical foundations.

First and most significant, Wright and Gardner (2003) elected not to control for size in their correlational study on the basis that the relative size of the locations was managed by the parent company within a predicted range (p. 27). Given that economies of scale can be expected to have substantial impact on productivity (greater ability to shift resources to cover peaks and minimize valleys, etc.), and that my dependent variable was a direct measure of productivity, I elected to control for size. As shown in the individual regression results (Table 4, Table 5, and Table 6), size is a very significant predictor of productivity. Despite controlling for size, there are still significant relationships between the independent variables, though not, in the end, with the measure of productivity.

Second, Wright and Gardner (2003) restricted their use of employee-survey data to “employees in three core jobs: MA’s, or merchandizing associates (sales), delivery drivers and warehouse employees,” on the basis that these groups had “the most direct impact on customers” (p. 27). While this logic is consistent with the notion of an HR architecture later advanced by Lepak and Snell (1999), it was inconsistent with the theoretical build-up and the level of analysis of this study. According to Bowen and Ostroff (2004), a strong HR situation is one that will assist all employees in their sense-making, and that will help them to understand and select those behaviors that most favor the needs and objectives of the organization. The level of analysis in this study is the unit, not the work group. Further, the dependent variable of interest in this

study (but tangential in the Wright and Gardner [2003] study), payroll\$ per piece shipped, includes the payroll cost of all employees, not just those most likely to have an impact on customers. For the purposes of this study, I included employee-survey results from all employee groups in the unit.

Wright and Gardner (2003) noticed differences in the perceptions of HR practices across the groups after analyzing the employee-survey data from the three specific employee classifications (out of more than a dozen). This supports the Bowen and Ostroff (2004) suggestion that HR practices need to be salient in order to be effective. They then created a ratio of the number of practices each employee stated was present, and divided by nine (the total number of practices studied). In this study I included the practices perceptions of all employees (who took the survey), and created a simple individual ratio of *yes* (the practice exists) and *no* or *don't know* combined as a single *no* (the practice does not exist). In both studies the individual response ratios were then aggregated to the unit level, with one further exception.

To avoid percept-percept bias Wright and Gardner (2003) further split the sample by using half the available data (half the employees completing the survey) for each of the perceptual variables (practices and commitment). Thus the aggregated measure of practices came from one half of the sample, and the aggregated measure of commitment came from the other half. Since the split sample came from only three (of approximately twelve) job classifications, each represented a potentially small subset of the unit population total. Given the level of analysis (the unit), and the theoretical implications of a strong HRM situation, in this study the perceptions of all employees were reduced to an individual ratio and aggregated to the unit level. While this may help to explain a portion (perhaps a significant portion) of the collinearity between the

independent variables in this study, input for each employee was considered important in the measurement of a strong HR situation.

In the end, Wright and Gardner (2003) acknowledged some of the limitations of their study, including their inability to measure discretionary behavior directly. Early versions of the broadline survey did not contain items directly measuring employee behaviors. Those items were added in subsequent surveys, and, consistent with the suggestion of Wright and Gardner, they were directly measured in this study.

The primary differences in result between Wright and Gardner (2003) and this study (the lack of a significant relationship between the predictor variables and the dependent variable) are most likely explained by these substantial differences in methodology, by the existence of multicollinearity across the independent variables, and by the small sample size. There has also been a considerable passage of time (six plus years) between the data collection for the two studies, and the variance across many of the measures is substantially reduced from Study 1 to Study 2.

Further Research

While this study did not yield the results predicted, it does yield some significant contributions and suggestions for further research. Consistent with Collins and Smith (2006), this study found a strong statistically significant relationship between HR practices and organizational social climate, suggesting that practices play some role in establishing that climate (Bowen & Ostroff, 2004). There is also a strong and significant relationship between organizational social climate and employee discretionary behavior, lending empirical support to the Bowen and Ostroff (2004) suggestion that strong HR situations help employees make sense of their environment

and choose appropriate behaviors to foster organizational success, and confirming the prediction of Wright and Gardner (2003).

Although not predicted, the direct effects of some of the HR legitimacy variables are interesting. Somewhat consistent with the earlier work of Huselid et al. (1997), the “technical” dimensions of HR (HR competency) have little effect on any of the other variables (practices, climate, and discretionary behavior). HR business acumen, somewhat analogous to Huselid et al.’s strategic dimension, has positive and significant direct effects on climate and discretionary behavior. Management expectation has a significant positive effect on practices. And finally, although not significant in this sample, HR business acumen is negatively correlated with the dependent variable, payroll\$ per piece shipped. In fact, it has the strongest (again, albeit non-significant) relationship of any of the predictor variables.

These data would suggest that further research into the role of HR competencies, HR business acumen, and management expectations would potentially provide additional information about how the “black box” between HR practices should be conceptualized and measured. Given the strength of the direct effects of HR business acumen, additional studies looking at the impact of various functional HR KSA “bundles” would seem to be warranted. The interaction between HR functional competency (the technical dimension) and HR business acumen (the strategic dimension) would also appear to be worth investigating. It may be that the two are complementary (having a lot of HR skills offsets a relatively weaker business skill set), or it may be that HR skills are the price of poker, and the real differentiator is the amount of business acumen added above that foundation. Both are questions worth answering.

On a practical level this study appears to suggest that business acumen among HR professionals has more impact on a variety of desirable outcomes than do core HR skills. This seems to be true whether one looks at proximal HR outcomes (discretionary behavior) or more distal operational outcomes (productivity). At a minimum, additional research should test the robustness of the effects of business acumen in the HR function across different industries.

Limitations

On the positive side, this study design and the sample selected provided many of the control features often available only in lab studies. The company used an indirect/impersonal control system that emphasized carefully measured and consistently displayed operational metrics, but allowed considerable autonomy across locations in how those results were achieved. There were few if any corporate mandates, and location leaders were free to develop practices and demonstrate their value strictly through results. This allowed at the outset for HRM to be operationalized differently across the enterprise. While the generalizability of these results to other types of businesses, and particularly to companies with a different management-control philosophy, is restricted, overall the benefits of a more controlled sample were considered the primary goal.

Another limitation is the effects of time on the amount of variance actually found across locations. As the management system was designed, lower-performing units were encouraged to seek advice and counsel from higher-performing units on the same dimension. The goal was not to mandate a solution at the expense of ownership for its implementation, but to provide leaders with a range of “best practices” to consider when attempting to move the needle on a particular corporate metric. Thus there was

no need to mandate solutions from headquarters; good ideas (that drove good results) were routinely copied by lower-performing units. Between 2000 and 2007, the span of time between the collection of data for Wright et al. (2005) and this study, the standard error of the HR practices variable was reduced by more than 50%. An environment with greater variation in practices may well have produced different results than those found in this study.

There were then two primary goals in this research. The first was to confirm and extend our understanding of the more proximal HR outcomes that drive firm performance by focusing on organizational social climate and employee discretionary behavior. The second, and more practical goal, was to provide some empirical support for the popular notion that HRM is more effective when the people in the HR function are of higher caliber, and when the organizational leader has an “enlightened world view” regarding the potential contributions of HRM.

Neither goal was achieved in this project. Due largely to the timing of the study in the host organization, sample size was restricted to a level that renders any meaningful exploration of interaction effects moot (McClelland & Judd, 1993). Without the statistical power to test these effects the impact of the three contextual variables used (HR competency, HR business acumen and management expectations) is still unknown. In addition, since none of the key predictor variables (HR practices, organizational social climate and employee discretionary behavior) had a statistically significant relationship with the dependent variable (payroll\$ per piece shipped), the test of the mediated model fails the key criteria for proving mediation (Baron and Kenny, 1986).

While the benefits of conducting this study in this host organization were significant (access to extensive employee survey data, the ability to further survey unit presidents, the availability of a variety of archival operational and financial results, and known variance at the unit level in HRM), in the end they were drastically reduced by the limitation to conduct the needed leaders survey in only two regions. The regions selected were not random, and they resulted in only 44 useable cases for analysis. While the region effects were not studied, it is entirely possible that needed variance at the operating unit level was reduced or eliminated by the presence of strong regional leaders.

And finally, given an n of only 44, care must be taken in any further generalization of these results. And given that the 44 locations aggregated to two regions, there may have been significant regional effects that were not tested in this study.

Conclusion

This study suggests that further investigation of three variables, HR functional competence, HR business acumen, and management expectations of HR, may well be warranted as we seek to further understand the “black box” of SHRM, and specifically as we try to identify the critical role of actors (individuals) in the creation of strong HRM systems.

APPENDIX A: BROADLINE WORK-CLIMATE SURVEY—LIST OF ALL QUESTIONS

CASEID: CASEID.

opco: Operating Company.

job: Job.

- A1:** Know the business goals of the company.
- A2:** President talks w/ associates abt our business direction.
- A3:** Communication frm President open/honest.
- A4:** President demonstrates commitment to diverse workforce.
- A5:** Division/Dept heads provide good leadership.
- A6:** Management will act on results of survey.
- A7:** Trust what management tells me.
- A8:** Use ethics process w/o fear of retaliation.
- A9:** Can influence decisions that directly impact my work.
- A10:** Receive timely info abt changes/decisions that affect my job.
- B1:** Dignity and respect-supervisor.
- B2:** Concern abt me as person-supervisor.
- B3:** Know what is expected of me at work-supervisor.
- B4:** Receive good feedback-supervisor.
- B5:** Encourages my involvement in solving a problem/improving a situation-supervisor.
- B6:** We review/discuss my top goals-supervisor.
- B7:** Helps with mistakes-supervisor.
- B8:** Encourages career development-supervisor.
- B9:** Tries to make SYSCO a good workplace-supervisor.
- B10:** Competent in his/her job-supervisor.
- B11:** Provides supports/helps-supervisor.
- B12:** Have opportunity to put skills to good use-supervisor.
- C1:** Reasonable workload to do my job well.
- C2:** Stable work environment.
- C3:** Good rules/procedures.
- C4:** Depts cooperate.
- C5:** Proper tools/materials/equipment.
- C6:** Safe work environment.
- C7:** I like people I work w/.
- C8:** Good place to work.
- C9:** Received sufficient training.
- C10:** Opportunities to learn new things.
- C11:** Opportunities to grow career.
- C12:** Work life balance.
- C13:** Contributions of all associates valued.
- C14:** All associates respected/appreciated.
- C15:** Favoritism not a significant issue.
- D1:** Committed to quality work/service..
- D2:** Make decisions to meet/exceed customer requirements.
- D3:** Provided w/ resources/procedures for good service.
- D4:** Work constantly to improve products/services.
- D5:** Products/services are the best available..

D6: Know what is important to customers..
D7: SYSCO committed to excellent customer service.
E1: Paid a fair amount.
E2: Pay same/better than other companies.
E3: Benefits same/better than other companies.
E4: Job done well yields rewards.
E5: Job done well yields recognition/respect.
E6: Promotions decisions within org fair..
E7: Vacation benefits same/better than other companies.
F1: Willing to work harder to help company succeed.
F2: Proud to work for SYSCO.
F3: Strong sense of belonging.
F4: Diverse workforce contributes to success.
F5: Comfortable building relationships w/ diverse people.
F6: Would refer a friend to work at SYSCO.
F7: Provide constructive suggestions abt how my dept can improve effectiveness.
F8: Job offer to consider leaving.
F9: Hope to spend career at SYSCO.
F10: Stay at least one year.
F11: Satisfied working at SYSCO.
I1: Formal tests to be hired.
I2: Structured interviews to be hired..
I3: Formal participation processes.
I4: Reasonable/fair complaint process.
I5: Group bonuses/performance outcomes.
I6: Individual bonuses/performance outcomes.
I7: Formal evaluation of performance.
I8: Formal communication regarding company goals/objectives.
I9: Company made changes based on suggestions of associates.
I10: Pay raises based on job performance.
I11: Opportunity to be promoted.
I12: Make important work related decisions.
I13: Company hires best people for job.
I14: Total pay highest for this type of work.
I15: Hours formal training associates receive.
age: Age.
gender: Gender.
race: Race.
edulevel: Educational background.
jobYears: Period of time at current job.
missDays: Days missed last year.

APPENDIX B: MEASURES OF HR LEGITIMACY

(Collected from company presidents via on-line survey)

HR Legitimacy-**Business Acumen** items—

1. Our Human Resource Manager (HRM) plays a significant role in this company's business planning process.
2. Our Human Resource Manager considers key financial indicators to drive strategies and decision making.
3. Our Human resource Manager uses financial indicators to benchmark our company performance against others.
4. Our Human Resource Manager uses business appropriate financial language to communicate important information to me.
5. Our human Resource Manager can analyze, interpret and challenge the financial forecasts and reports of this business.
6. Our Human Resource Manager understands the current needs and expectations of our external customers.

Adapted from *Build Your Business Acumen*, by B. Stern and B. Walters, 2005.

Retrieved from http://findarticles.com/p/articles/mi_qa5366/is_200506/ai_n21373265

HR Legitimacy-**Human Resource Competencies** items—

1. Our Human Resource Manager assures that our staffing process delivers highly qualified associates for all positions in a cost effective and timely manner.
2. Our Human Resource Manager has managed employee development in a way that helps individuals and the company meet or exceed expectations.
3. Our Human Resource Manager makes sure that our appraisal system provides meaningful employee feedback and clearly links to company performance.
4. Our Human Resource Manager knows how to design reward systems that help all employees understand the most appropriate behaviors for individual and company success.
5. Our Human Resource Manager constantly reviews the structure of our organization with an eye toward process improvement and proposes appropriate changes to meet new demands and objectives.
6. Our Human Resource Manager plans and develops business communications that help everyone understand the goals of the company and the way their role supports those goals.

Adapted from “Human Resource Competencies: An Empirical Assessment,” by D. Ulrich, W. Brockbank, A. K. Yeung, and D. G. Lake, 1995, *Human Resource Management*, 34, 473–474, 495.

HR Legitimacy- **Line Management Expectations of HR** items—

1. I believe that how we manage people is as important as our products and services in determining our success in the market.
2. I expect my human resource manager (HRM) to be a full and complete business partner to me personally.
3. I often discuss business issues with my HRM, regardless of whether they have direct or immediate people implications.
4. I view the contributions of my CFO and my HRM as equal with respect to the success of the organization.
5. I demand that my HRM be fully conversant with new ideas in the HR field, and expect that the best will always be brought to my attention.
6. I get personally involved in the selection of my HRM's direct reports.
7. My HRM is part of my business "inner circle."

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